

Audit Policy – Recipient Monitoring Policy

DCF Audit/Monitoring Policy and Requirements

Original Effective Date: March 22, 2000

Rev. 2003; Approved by Audit Committee on November 12, 2003

Rev. 2007; Approved by Audit Committee on June 22, 2007

Rev. 2009; Approved by Audit Committee on July 9, 2009

Rev. 2016; Approved by Audit Committee on March 29, 2017

I. Purpose:

This document replaces Secretary’s Letter 544 dated May 27, 1999 regarding responsibilities for obtaining independent audits on grants and contracts awarded by DCF. It defines the responsibilities for monitoring recipients of Department funding (direct and pass-through) and expands the monitoring requirements to cover all awards of that funding. (See definition of award below.) **This policy is effective beginning with fiscal years beginning December 26, 2014.**

II. Background and Definitions:

As defined in the Code of Federal Regulations Section 2 Part 25.305, **award** means financial assistance and cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities, that provide support or stimulation to accomplish a public purpose, which include grants and other agreements in the form of money or property in lieu of money, by the government to an eligible recipient. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. Any audits of such vendors shall be covered by the terms and conditions of the contract.

Regarding the use of grants and cooperative agreements, and contracts, the Federal awarding agency shall decide on the appropriate award instrument (i.e., grant, cooperative agreement, or contract). The Federal Grant and Cooperative Agreement Act (31 U.S.C. 6301-08) governs the use of grants, cooperative agreements and contracts. A grant or cooperative agreement shall be used only when the principal purpose of a transaction is to accomplish a public purpose of support or stimulation authorized by Federal statute. The statutory criterion for choosing between grants and cooperative agreements is that for the latter, “substantial involvement is expected between the executive agency and the State, local government, or other recipient when carrying out the activity contemplated in the agreement.” Contracts shall be used when the principal purpose is acquisition of property or services for the direct benefit or use of the Federal Government.”

For purposes of this document, the term “recipient” refers to those entities receiving funding (direct and pass-through) through the Department for Children and Families.

III. Monitoring Policy Expenditure and Audit Guidelines:

A. Non-Federal entities that expend \$750,000 or more in a year in Federal awards (total of all applicable federal awards) shall have a **single or program-specific audit** conducted for that year in accordance with the provisions of **2 CFR 200.514** Scope of Audit. Please note that this report is required to contain a financial report (including income statement, balance sheet, statement of cash flows and statement of changes in equity as well as notes to financial statements). In addition to the requirements of the audit in accordance with 2 CFR 200.514, recipients may be asked to conduct a separate limited scope engagement with agreed-upon procedures. These additional procedures will be designated in the terms and conditions of the award.

Limited scope audits with agreed-upon procedures should be conducted in accordance with 2 CFR 200.425 Audit Services. Agreed upon procedures are defined as the following: consists of auditors performing specific procedures on the subject matter and issuing a report of findings based on the agreed-upon procedures. Agreed upon procedures should follow GAGAS attestation standards.

Required communications shall all be documented in writing to include communications required by AU-C 260 and AU-C 265 and shall be provided the DCF with the audit report. The audit and all required communications shall be completed in accordance with 2 CFR 200.514 and shall be completed and submitted to DCF Audit Services within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period.

The allocated cost for the single audit may be charged against the Federal award. Additional requirements imposed by DCF, and the resulting audit work necessary to achieve them, would not be able to be charged against the Federal award but would be able to be charged against the State portion of that award.

B. Entities that do not fall under the audit requirements found in Section A. (e.g. which expend less than \$750,000 in a year in all Federal awards and expend more than \$150,000 in federal/state awards) shall have a limited scope audit with agreed upon procedure which shall be conducted in accordance with 2 CFR 200.425 Audit Services. These procedures shall follow GAGAS attestation standards and include the following:

- A financial audit of the recipient organization conducted in accordance with generally accepted auditing standards. It should assess the extent to which the recipient's financial reports fairly reflect the recipient's financial condition and include a statement of financial position, statement of activities, and statement of cash flows. There shall also be (1) a schedule of award expenditures for the period covered by the recipient's financial statements, (2) a schedule of findings and questioned costs, and (3) a summary schedule of prior audit findings. GAGAS establishes reporting requirements for agreed-upon procedures engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with these additional requirements when citing GAGAS in their agreed-upon procedures engagement reports. The additional requirements relate to a. reporting auditors' compliance with GAGAS; and b. distributing reports.
- A report on internal controls.
- A report on compliance to the award terms and conditions as well as the following:
 - activities allowed or unallowed;
 - allowable costs/cost principles;
 - eligibility;
 - reporting.

- Any correspondence (e.g., management letters) from the auditor associated with the audit. All required communication is to be documented in writing and presented to DCF with the report (AU-C 260 and AU-C 265).
- A review of performance measures if the federal or state award document requires these to be audited and reported upon. The recipient of the award will have to report those performance measures either through their independent audit or through another entity designated by DCF.
- A detailed schedule of revenues and expenditures by line item if specified in the award document. This schedule must be prepared with reasonable assurance by the auditor. If line item detail is not required, management should ensure a schedule is prepared listing total revenues and total expenditures (state share and federal share) for each award. If the award covers multiple years, each year should be reported separately on the schedule. Again, the auditor should apply procedures to this schedule to determine if they can provide reasonable assurance on its contents.

The cost for the agreed upon procedures audit may only be charged against state funds awarded. It must be correctly allocated based on work performed. It may only be charged to the award if it is included in the budget. If it is not included in the initial budget, a budget modification must be requested to include this cost to be supported by the appropriately allocated amount of state funds awarded.

Internal monitoring conducted by DCF may include reviewing reports submitted by the recipient, performing site visits to review financial and programmatic records and observe operations, reviewing the recipient's single audit or program-specific audit results, and evaluating audit findings and the recipient's corrective action plan. Internal monitoring could include audits/monitoring by DCF Audit Services. Internal monitoring can also be completed by DCF program staff.

C. Entities that do not fall under the audit requirements found in Sections A. or B. (which expend less than \$150,000 in a year in all awards OR receive less than \$750,000 in combined federal awards and NO state monies in their DCF award) shall:

- 1) Have an audit completed in accordance with requirements as outlined in III.B. (above) **OR**;
- 2) The recipient may apply to DCF Audit Services for consideration of a waiver of this requirement for the current grant year if the burden of the cost of an independent audit is exceptional. A waived independent audit shall be replaced by in-time monitoring and/or an audit to be completed by DCF Audit Services.

In order to be considered the recipient must request consideration within 60 days of award initiation, supply current quotes for an independent audit, and their most recent 990.

This is not a guarantee of acceptance, and the requesting organization shall maintain the amount required for an independent audit within their budget unless they receive a letter of acceptance of waiver for independent audit requirement from DCF Audit Services.

Receipt of waiver of independent audit requirement shall require that the grantee agree to and supply all documents requested by DCF Audit Services to perform established procedures related to oversight and accountability for awarded monies. The documents will include (but are not limited to): the General

Ledger, chart of accounts, supporting documentation and other relevant information to establish that compliance with the terms of award and federal regulations has been maintained.

The cost for a financial audit may only be charged against state funds awarded. It must be correctly allocated based on work performed. It may only be charged to the award if it is included in the budget. If it is not included in the initial budget a budget modification must be requested to include this cost to be supported by the appropriately allocated amount of state funds awarded.

IV. DCF Audit Services Oversight

DCF Audit Services may elect to perform desk audits, in time grant reviews and/or on-site audits. Any monitoring or audit performed by DCF Audit Services staff does not replace an award recipient's requirement to obtain an annual independent audit in accordance with Section III above and provide DCF Audit Services with that report.

V. Audit Submission:

Audits required above shall be completed and submitted to DCF Audit Services within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the recipient's fiscal year end. DCF Audit staff shall be given access, when requested, to all working papers prepared in the independent audit.

Materials to be submitted include the CPA Report and all associated correspondence. This includes the Communications required under AU-C Section 260 and AU- C Section 265, and a response to finding as well as a Corrective Action Letter if any findings were present in the audit report.

Audit reports must be sent directly by the award recipient to: The Department for Children & Families, Audit Services, DCF Administration Building, 6th FL, 555 S. Kansas Ave., Topeka, KS 66603. They may also be sent electronically to DCF.OACS@ks.gov. Questions regarding this policy may be directed to the DCF Audit Services.